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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/ BACHELOR OF COMMERCE

BML 307/ BML 402/ BCM 225: **RISK AND INSURANCE MANAGEMENT**

DATE: **4TH APRIL 2023**

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

SAVANNAH PLANS RAISING ANNUAL CEMENT OUTPUT

Savannah Cement is set to raise annual production capacity to 2.4 million tonnes in a multi-billion-shilling investment at its Athi River plant as it targets a larger share of infrastructure cement supply. Savannah, which started operations in 2012, currently produces 1.2 million tonnes annually at the Athi River plant, which has an installed capacity of 1.5 million tonnes.

The company expects the additional capacity to be in place by mid-2018 as it joins other major cement makers in the country looking for additional capacity to satisfy rising demand. Project disclosures by the National Environment Management Authority (NEMA) show that the project will involve installation of an additional cement grinding mill and a packing plant. Savannah is currently seeking NEMA approvals for the plant and once approved will seek insurance of the property from Jubilee and Britam Insurance companies respectively.

"We are hoping to issue the tender for the project in early 2017, possibly January or February. Being a second production line, construction work should take anything between 14 and 18 months, therefore we would have the plant up and running by mid-2018. Once we get the approvals, we will immediately look to finalize the financing aspect of the project," said Savannah Cement managing director Ronald Ndegwa.

He added that the firm was betting on additional production capacity to expand its range of cement, especially the blend known as a Hydraulic Road Binder (HRB) used in road construction to stabilize surfaces. "It will allow us to adjust to the new reality in the cement sector where the market is dictating what type of cement we produce," he said. He, however, declined to disclose the outlay the firm is making to put up the plant, saying that disclosure might affect the bidding process. Cement plants normally cost billions to set up.

Cement consumption has been growing rapidly in the region, leading to companies increasing their capacity which has been running ahead of demand. Bamburi Cement, the biggest local producer, recently announced plans to raise the capacity of its Athi River plant by 53.3 per cent to 2.3 million tonnes from 1.5 million tonnes through installing a new grinding mill, the firm said in an environmental audit report.

Analysis by AIB Capital shows that Kenya's cement consumption has seen a compound annual growth rate of 13.4 per cent between 2009 and 2015 while growth in production has averaged 11 per cent. Kenya has a production capacity of about 8.9 million metric tonnes a year, with actual production at 6.5 million tonnes. "The main demand driver has been housing. However, infrastructure demand is significantly increasing as the region plugs its infrastructural gap," said AIB Capital in its latest cement sector report.

Required;

a) Describe five (5) critical risks that manufacturing companies like Savannah may face **(10 Marks)**

b) Explain five (5) types of insurances that Savannah may require as they expand their business **(10 Marks)**

c) Savannah cement will seek insurance of its new plant from two insurance companies; Jubilee and Britam. Distinguish between double insurance from reinsurance **(5 Marks)**

QUESTION TWO

a) Illustrate the four (4) main ways of dealing with risk in an organization **(8 Marks)**

b) State seven (7) benefits of a risk management program in a business **(7 Marks)**

QUESTION THREE

a) Write short notes on the following fundamental terminologies

i. Proximate cause **(2 Marks)**

ii. Re-insurance **(2 Marks)**

iii. Subrogation **(2 Marks)**

iv. Hazard **(2 Marks)**

b) Explain composite risk index and highlight the five (5) major steps in developing a composite risk management process **(7 Marks)**

QUESTION FOUR

a) As a student of risk and insurance management, evaluate three (3) benefits of a well drafted indemnity clause **(9 Marks)**

b) Highlight six (6) key areas insurers need to consider in developing effective business models to enable them to adapt to the changes in the insurance market **(6 Marks)**

QUESTION FIVE

a) Describe five (5) common challenges of an Enterprise Resource Management (ERM) program **(10 Marks)**

b) Outline five (5) main functions of insurers **(5 Marks)**

QUESTION SIX

a) Contrast the principle of utmost good faith from Principle of indemnity **(5 Marks)**

b) Analyse five benefits of life insurance to an individual **(10 Marks)**